

EMCO LIMITED

Financial Summary

Dollars in thousands except for share data.

	1979	1978	% Change
Sales, less sales taxes:			
Plumbing & Industrial Group	\$211,184	180,283	+17
Petroleum Equipment Group	66,121	44,639	+48
	<u>\$277,305</u>	<u>224,922</u>	+23
Earnings before extraordinary items	\$ 10,753	6,704	+60
Extraordinary items	347	506	-31
Net earnings	<u>\$ 11,100</u>	<u>7,210</u>	+54
Per common share:			
Basic earnings:			
Before extraordinary items	\$ 2.37	1.48	+60
Including extraordinary items	2.45	1.59	+54
Fully diluted earnings:			
Before extraordinary items	2.27	1.42	+60
Including extraordinary items	2.35	1.53	+54



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ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Holiday Inn, City Centre Tower, 300 King St., London, in the Victoria/Albert Room, at 10:30 a.m. on May 7, 1980.



COVER

The five national languages of the eight countries in which Emco Limited has manufacturing facilities are depicted on the front cover of this annual report. Emco has grown from a small Canadian manufacturer of brass plumbing products into an international corporation with strengths in the manufacture and distribution of highly engineered fluid handling equipment for the oil and petrochemical industries, ranging from service station nozzles to marine loading arms and vapor recovery systems.



TO OUR SHAREHOLDERS

A Record Year

Emco Limited achieved record sales and earnings in 1979. Consolidated sales were \$277 million, an increase of 23% over 1978 sales of \$225 million. Net earnings, including extraordinary items for the year, were \$11.1 million compared with \$7.2 million in 1978, a 54% increase. Fully diluted earnings per share were \$2.35 compared with \$1.53 in 1978.

At their meeting on February 25, 1980, your directors approved the eighth dividend increase within the past 10 years, raising the dividend for the first quarter of 1980 to 13¢ per share from 11¢ per share.

Operating Highlights

Early in 1980 the name of the Engineered Products Group was changed to the Petroleum Equipment Group, a name which more accurately reflects the nature of the highly-engineered systems the Group produces for the handling and transfer of fluids in the petroleum and petrochemical industries.

In 1979 the Petroleum Equipment Group had an excellent year, as sales increased 48% from \$44.6 million in 1978 to \$66.1 million. Acquisitions played an important role in the growth of the Petroleum Equipment Group in 1979, providing increased sales of 13%. This group has had outstanding success in maximizing earnings from existing operations while seeking new products and markets to broaden its base. Group prospects are excellent and our active acquisition policy will continue in the future.

Plumbing and Industrial Group sales increased 17% in 1979, reaching \$211 million from \$180 million the previous year. This performance reflects gains made in the growing do-it-yourself plumbing market by our Emco and Peerless retail products and increased commercial and industrial sales by Emco Supply, our national distribution operation.

It is significant that these results were achieved while new housing starts fell 14% from 227,000 in 1978 to 195,000 in 1979. This indicates that we have lessened our dependence on the residential construction market while further developing our presence in the commercial, industrial, waterworks and replacement markets.

Acquisitions

Emco completed three key acquisitions in 1979 for a cash consideration of \$4.5 million. The products manufactured by these companies complement our current lines and will make a significant contribution to our results in the future.

In Canada, RNG Equipment Ltd. and Ritepro Inc. were acquired effective September 1. Purchase of these

companies broadened our product lines and gave Emco Wheaton a range of quick release couplings which can be sold by independent agents around the world and other companies in the Petroleum Equipment Group.

The acquisition of Engineering Products Pty. Limited of Melbourne, Australia in January 1979 enabled Emco Wheaton Australia Pty. Limited to move into new markets with its aluminum tankers, jet refuelling equipment and other products.

The assets of the J.B. Reimann companies of Australia were acquired in November 1979. Reimann makes underground and above-ground storage tanks, sheet metal products and agricultural equipment.

Outlook

Housing starts are expected to decline to about 180,000 in 1980 from 195,000 in 1979, a 7.7% decrease. Although this will have some impact on sales, the effects of this decline will be offset by our increased penetration of the retail and industrial markets and our development of new products such as the Spra-Rite in-ground lawn sprinkler system which is being introduced to the Canadian market in 1980.

The Petroleum Equipment Group will continue to implement its aggressive expansion strategy in 1980 and beyond. The objective of this strategy is to seek new products and markets to diversify the Group's base and reduce our dependence on oil and petrochemical distribution. The companies we acquire will be selected because their people and products reinforce our strengths in manufacturing, marketing and distribution.

In the five years from 1975 to 1979, Petroleum Equipment Group sales rose from \$27 million to \$66 million and sales are expected to approach \$90 to \$100 million in 1980. If this is achieved, the Petroleum Equipment Group should account for 45% of the company's earnings in 1980.

As we stand on the threshold of a new decade, we are committed to carrying on the momentum of the 1970's. It took Emco Limited 66 years to reach our first \$100 million in sales in 1972. The \$200 million mark was passed six years later in 1978. In 1980 sales are expected to pass \$300 million.

The results of the past decade were achieved despite some soft spots in our traditional markets. We are proud of these results and believe that the efforts of our employees around the world have laid the groundwork for continued success in the future.

At the annual meeting of the shareholders, held in May last year, David L. Johnston, then Dean of Law at the University of Western Ontario and now Principal and Vice-Chancellor of McGill University, was elected to the Board of Directors. Mr. Johnston has been recognized for his expertise in securities legislation, corporation and labour law and will be an invaluable asset to our Board.

Mr. W.H. Evans will be retiring from the Board of Directors at the forthcoming annual meeting. He has served on our board for 12 years and we are indebted to him for his commitment, leadership and contribution to Emco.

The group operational reviews which follow describe our performance in 1979 and our prospects for the future. These prospects make us confident that the 1980's will be beneficial for all who are dependent on the results of Emco – our employees, customers, suppliers and shareholders.



John W. Adams
President, Chief Executive Officer
February 25, 1980



REVIEW OF OPERATIONS

Plumbing & Industrial Group

Plumbing and Industrial Group

From the many locations across Canada that make up the Plumbing and Industrial Group emerge more than 10,000 different plumbing and heating products ranging from relatively simple faucets to industrial components made to rigid specifications. The Supply operation of the Group with a coast-to-coast network distributes products made by Emco and its subsidiary companies. In addition, it also handles complementary product lines made by other manufacturers.

DIVISIONS

Emco Supply

Barrie	Moncton	Sault Ste. Marie
Belleville	Montreal	Saskatoon
Calgary	(Lachine)	Sherbrooke
Edmonton	North Bay	St. Catharines
Grande Prairie	Oshawa	St. John's
Guelph	Ottawa	Sudbury
Halifax	Peterborough	Terrace
(Dartmouth)	Prince George	Toronto
Kitchener	Quebec	Ville de Brossard
Lethbridge	Regina	Windsor
London	Saint John	Winnipeg
Medicine Hat		

General Manufacturing

- London Factory, London, Canada - manufacturer of plumbing, heating and industrial piping products.
- Emco Plastics Limited, Brampton, Ontario - manufacturer of plastic plumbing and piping components.
- Delta Faucet of Canada Limited, Bowmanville, Ontario - manufacturer of Delta, Delex and Peerless faucets.

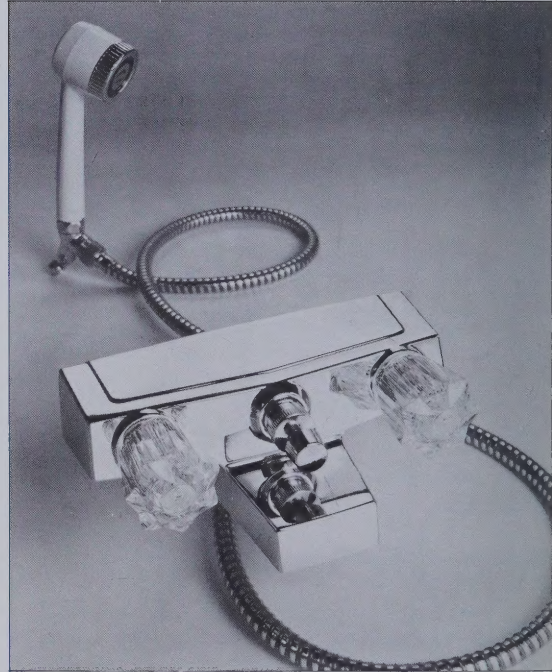
CCTF

Toronto, Ontario - supplier of steel welding fittings for industry.

Branches - Vancouver, Seattle (Washington)

Divisional Operating Executives

J.J. Wareham	Eastern Regional Manager, Emco Supply
W.L. Douglas	Vice-President, Central Region Emco Supply
W.M. Eager	Western Regional Manager, Emco Supply
D.J. Hackett	Vice-President and General Manager, CCTF
P. Penna	General Manager, Emco Plastics Limited
G.D. Thompson	Vice-President and General Manager, Delta Faucet of Canada Limited



The new Delta facemount bath faucet.

1979 was an outstanding year for the Plumbing and Industrial Group with a sales increase of 17% and record earnings. This was achieved despite a decrease in new housing construction to 195,000 units from 227,000 in 1978, a 14% decrease.

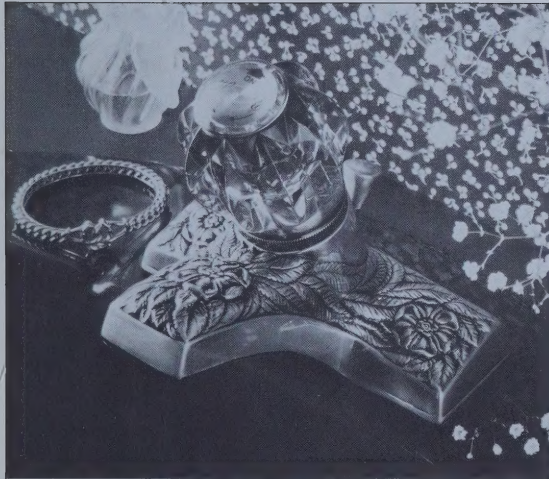
The performance of the Group in 1979 confirms that our business is not solely dependent on new housing construction. We also participate heavily in the commercial, industrial, waterworks and replacement markets. Residential construction remains significant, but we have lessened our dependence on this market by expanding into other markets.

London and Brampton Plants

Emco's 320,000 square foot London plant manufactures a complete range of faucets and other plumbing fixture trim. A major modernization project will be undertaken in 1980 in our London foundry and machine shops to dramatically improve operating efficiency.

The 120,000 square foot Brampton plant manufactures parts for the Emco faucet line and plastic fittings for use with plumbing and drainage systems.





Peerless Designer Collection decorator faucet.

Products of the London and Brampton factories are warehoused centrally in Brampton and regionally in Vancouver and Calgary. They are distributed across Canada through Emco Supply and independent wholesalers.

An area that holds great promise for the future is the rapidly expanding do-it-yourself plumbing products market. Our do-it-yourself dealer program gained momentum in 1979 with the addition of two new retail packages and in-store merchandising displays.

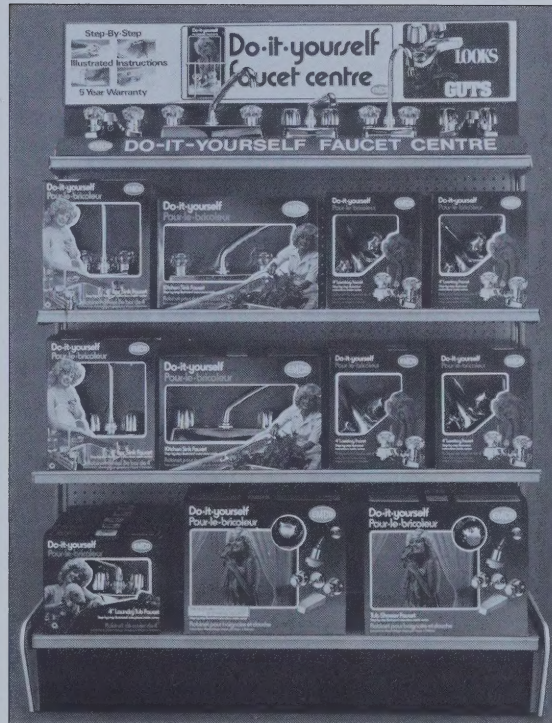
This promising program has had encouraging results and has helped to offset the effects of declining housing starts. Further penetration of this market will counteract any adverse effects of declining housing starts in 1980.

A highlight of 1980 will be the introduction of a residential in-ground lawn sprinkler system to be marketed by Spra-Rite Canada, a division of Emco Limited. Preliminary acceptance of this new do-it-yourself product is encouraging.

Delta Faucet of Canada Limited

This subsidiary manufactures and markets the famous Delta washerless faucets across Canada. A 10% increase in unit sales volume over 1978 was recorded by this company.

The introduction of Deltique decorator faucets to the Canadian market was marked by record new product sales. The initial acceptance of the Deltique line indicates that plumbing contractors and consumers alike are eager for well-designed, esthetically-pleasing products.



New Emco in-store merchandising display.

During 1980, Delta Faucet will continue to direct its selling efforts to plumbing contractors in order to increase its share of the renovation and remodelling market. Builder promotions and sales calls will be stepped up to capitalize on brand awareness and increased product line depth. Several new products will be introduced to the market this year, among them individual basin faucets and a fully-adjustable shower-head.

Peerless Faucet Company

The products of this division of Delta Faucet of Canada Limited are sold in hardware, department, building supply and specialty stores as well as home improvement centres across Canada. In only its second year of operation, Peerless Faucet has gained a large share of the do-it-yourself retail plumbing market.

The introduction of the Designer Collection of decorator faucets strengthens the position of Peerless as the leader in the do-it-yourself faucet market. This new line will contribute substantially to increased sales in 1980.



REVIEW OF OPERATIONS

Plumbing & Industrial Group



Emco representative demonstrates faucet installation at dealer store.

Emco Supply

Emco Supply operates in major Canadian cities as the leading distributor of plumbing and industrial products (such as pipe, fittings and valves) to mechanical contractors. The division also sells material to sewer and waterworks contractors, industrial accounts, oil refineries and petrochemical processing plants, mines, building supply houses and hardware stores.

Sales and earnings of Emco Supply for 1979 were again at record levels and considerably exceeded 1978 results even after discounting for inflation. Reduced sales in the residential construction market were more than offset by increased commercial and industrial sales. It is expected that this trend will become more pronounced over the next two or three years if housing starts continue to decline.

CCTF

CCTF, formerly Canadian Clyde Tube Forgings Limited, is the largest supplier in Canada of welding fittings and flanges to industry. Sales and earnings during 1979 exceeded our forecast and the division recorded a good year. CCTF continued to increase its share of the market in Canada and the northwestern United States by providing excellent inventory and service backup to its distributor customers. As a result of substantial gains and sales



Welding fittings in CCTF warehouse.

penetration by the division's Seattle branch, further expansion is planned for the United States market in 1980. CCTF expects 1980 to be another successful year in its North American industrial products market.

Overall Outlook for Plumbing and Industrial Products

Canada appears headed for a difficult year in 1980. Estimates place this country's real economic growth at less than 1% and rates of inflation and unemployment are expected to increase moderately. It is unlikely that present high interest rates will drop dramatically in 1980. This fact, combined with the slowdown in the rate of growth of real disposable income in an oversupplied housing market, will bring about a decline in housing starts to 180,000 or less from 195,000 in 1979. But despite the generally gloomy outlook, there are grounds for optimism about the performance of Emco's Plumbing and Industrial Group in 1980.

One of the most encouraging prospects has been the overwhelming acceptance of Delta Faucet's Deltique line of decorator faucets and the Peerless Designer Collection. These products are geared to a more stable market and so should not be severely affected by drops in new housing construction. Equally encouraging has been Emco's penetration of the growing retail market for plumbing products. A comprehensive marketing program, aimed at creating a demand for Emco faucets at dealer and consumer levels, has been very successful in



Spra-Rite in-ground lawn sprinkler system.

its initial stages. All signs point to continued success in developing this promising market.

Introduction of new products, such as the Spra-Rite Canada line of do-it-yourself in-ground residential lawn sprinklers, will present opportunities in markets not presently served by Emco.

Increased activity of Emco Supply in the industrial, waterworks and retail market segments is also promising. Sales to mechanical contractors still represent the largest market for this division, but these other markets have expanded considerably and are being pursued vigorously.



W.L. Douglas, Vice-President, Central Region, Emco Supply and J.E. Hodgson, Assistant Manager, Toronto branch, examine waterworks products.

Fortunately, the outlook is quite good in the non-residential building construction industry. Estimates place new non-residential building construction at more than \$8.4 billion, compared with \$8.1 billion in 1979. This increase will occur despite a projected decline in new institutional building starts.

*R.S. MacLean
Vice-President, Plumbing & Industrial Group*

REVIEW OF OPERATIONS

Petroleum Equipment Group

Petroleum Equipment Group

The Petroleum Equipment Group manufactures and distributes highly engineered fluid handling equipment used in oil and petrochemical industries around the world. The products, offered under the Emco Wheaton name, range from service station nozzles and fleet fuelling systems to tank truck loading assemblies, marine loading arms and bunkering units to vapor recovery systems. These Emco Wheaton products reach world markets through plants in England, France, West Germany, Japan, Australia, Brazil, the U.S.A. and Canada.

CORPORATE OFFICE

Emco Wheaton International Limited,

Mississauga (Toronto), Canada

R.H. Wedgbury, President

A.R. Martin, FCA, Vice-President Finance

R.F. Howard, Vice-President Marketing

P.S. Seybold, Vice-President Operations

T.F.J. Rose, Vice-President Engineering

OPERATING DIVISIONS

Emco Wheaton Australia Pty. Limited

Sydney, Australia

R.J. Treble, Group Managing Director

Engineering Products Pty. Limited

J.B. Reimann Division

Emgas Pty. Limited

Emco Wheaton Industria E Comercio S.A.

Rio de Janeiro, Brazil

J.B. de Castro, Director and General Manager

Emco-Wheaton Limited

Toronto, Canada

R.M. Clark, President

R.N.G. Equipment Ltd.

Ritepro Inc.

Emco Wheaton U.K. Limited

Margate, England

W.F. Shutler, Managing Director

Emco Wheaton S.A.

Paris, France

G. Herd-Smith, General Manager

Emco Wheaton GmbH

(76% owned) Kirchhain, West Germany

W. Buchmueller, General Manager

Emco Wheaton (Japan), Limited

Yokohama, Japan

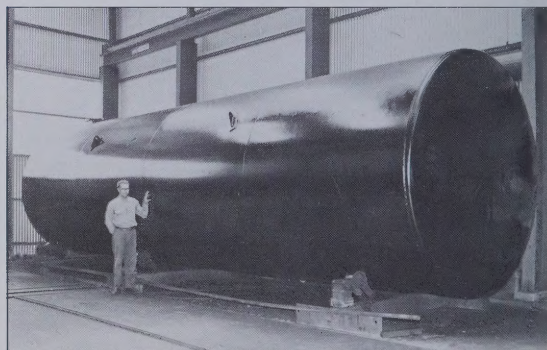
G. Teramura, General Manager

Emco Wheaton Inc.

Conneaut, Ohio and Gulfport, Mississippi,

United States

J.G. Beresford, President



Top.... Five compartment semi-trailer tanker built by Epex, Australia.
Bottom.... Underground storage tank manufactured by J.B. Reimann, Australia.

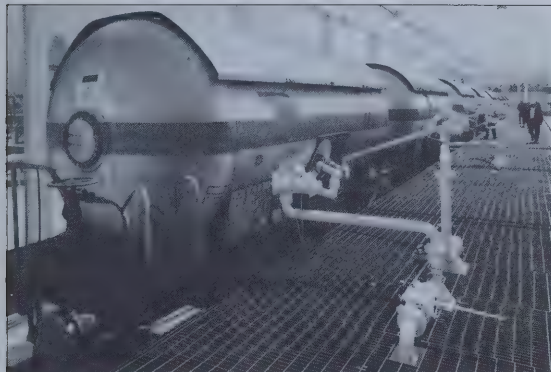
Review of Operations

Early in 1980, the name of our Engineered Products Group was changed to the Petroleum Equipment Group to better reflect the nature of our operations around the world. The Petroleum Equipment Group produces highly engineered systems used for handling and transferring fluids in the petroleum and petrochemical industries. These products include service station nozzles, fleet fueling systems, tank truck loading assemblies, marine loading arms for the transfer of a super tanker's liquid cargo, vapor recovery systems, quick release couplings and specialty valves.

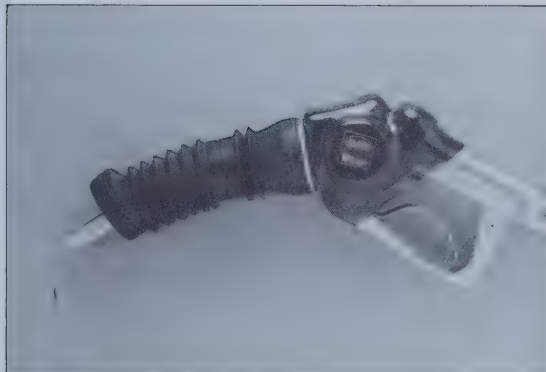
Concern about preserving the environment has created new markets for the Petroleum Equipment Group. An example is our development of vapor recovery systems designed to prevent the escape of vapors during the transfer of gasoline. These systems virtually eliminate a major source of pollution, recovering the vapor for later use.

The Petroleum Equipment Group has manufacturing facilities in Australia, Brazil, Canada, England, France, West Germany, Japan and the United States. Our





Butane off-loading arm installation in Clydach, Wales.



Vapor recovery service station nozzle.

products are marketed under the Emco Wheaton name in more than 100 countries through an international network of agents and distributors.

Operating Highlights

Consolidated sales for the Group increased by 48% over 1978 (of which 2% resulted from foreign currency translation gains). Acquisitions in Canada and Australia provided increased sales of 13% in 1979. Earnings from this group in 1979 were the highest since its inception in 1970. The increase in earnings was partially the result of margin improvements achieved by cost reduction programs designed to increase productivity, produce purchasing economies and reduce expenses. Inventory reduction programs and reduction in receivables contributed to an improved return on investment.

Canada

Sales and earnings increased substantially from 1978 levels primarily because of growth in the Canadian propane market. In addition, there was a strong demand from the chemical and industrial markets for existing fluid handling products normally used in the oil industry.

RNG Equipment Ltd. and Ritepro Inc. were acquired effective September 1st. The acquisition of these leading companies broadened our product lines and allowed further diversification into the industrial sector, increasing our share of this market. In addition, these acquisitions provide Emco Wheaton worldwide with a range of quick release couplings in all sizes and metals required by industry. Substantial export sales of this product line are now possible in markets currently served by other companies in the Emco Wheaton group.

United States

Demand in the United States was strong in 1979 for petroleum handling equipment manufactured in the

Conneaut, Ohio plant. Sales and earnings exceeded 1978 levels, reflecting improvement in management effectiveness. Sales of the entire product range increased, particularly those products related to environmental control and product conservation. We are particularly proud of the sales results for our vapor recovery nozzle and for vapor recovery equipment at the terminal, on the tank truck and at tank truck delivery points. The 1980 outlook for the products of this division is excellent and we enter the new year with record orders on hand. The Marine Loading Arm Division in Gulfport, Mississippi had a very slow start in the first half of 1979 but orders and shipments set new records in the second half of the year.

Brazil

The Brazilian operation was hampered by the change in delivery date from 1979 to 1980 of a major contract and a generally static market. A 30% currency devaluation took place in early December and importation difficulties had a further negative impact on results. Despite these problems, the division was profitable in 1979. As we enter 1980, the division's orders show a substantial increase over last year's level.

United Kingdom

The United Kingdom operation, currently employing 240 people, increased its emphasis on development and production of special engineered systems and marine arm units used in the transfer of a super tanker's liquid cargo. The company enjoys an excellent business, of which 50% is exported from the United Kingdom. Unfortunately, our production was adversely affected by a work stoppage of the National Engineering Union for a brief period. Production now is fully restored and the outlook for 1980 is excellent.



REVIEW OF OPERATIONS

Petroleum Equipment Group



This pneumatically operated twin boom top loading arm with vapor recovery and telescopic drop tube is installed near Hamburg, West Germany.

We believe we have a management team in the United Kingdom which is capable of handling greater responsibilities and we are actively seeking acquisition opportunities in this area to more fully utilize our resources.

West Germany

Although the domestic market for our products did not increase, satisfactory growth was again recorded in 1979 sales and earnings. New applications for existing products were found which contributed greatly to overall performance. Sales of new products aimed at the general industrial market also contributed to the division's success. Because the strength of the deutsche mark inhibits exports, the division maintained its sales level by strengthening its engineering capability and concentrating on highly engineered products for specific applications. Orders at year end were ahead of last year. Continued efforts to diversify the division's market and products will ensure another year of growth in 1980.

France

The French division is a small wholly-owned subsidiary located on the outskirts of Paris. This company enjoyed a good year in 1979 and the outlook for 1980 is encouraging, as efforts are being made to expand its manufacturing capability.



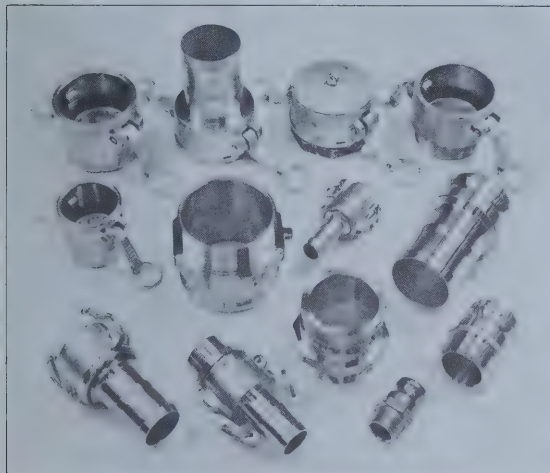
A battery of four B4000 marine arms with hydraulic couplings installed at Flotta Terminal, Orkney Isles for handling North Sea crude oil.

Japan

The Japanese operation is showing slow but steady recovery from the 1974 oil crisis. Increasing competition has hampered its profitability with the result that earnings were slightly below forecast in 1979 despite higher sales. The softening of the Japanese currency against the U.S. dollar has encouraged increased exports at year end and overall performance should improve in 1980.

Australia

The acquisition of Engineering Products Pty. Limited (Epex) in January 1979 enabled Emco Wheaton Australia Pty. Limited to move into new markets. Sales and earnings from the combined operations of Epex and Emco Wheaton were substantially above any previous year in Australia. The assets of the J.B. Reimann Companies were acquired in November 1979, adding manufacturing facilities in South and Western Australia. Reimann



A selection of Ritepro cam and groove quick release couplings.

manufactures a range of underground and above-ground storage tanks, sheet metal products and agricultural equipment.

It appears that propane (liquid petroleum gas) will be a major source of energy in the future in Australia. In order to participate in opportunities which will present themselves, we have established a business associated with the manufacture and installation of propane equipment for automobiles. The new subsidiary, Emgas Pty. Limited, has a small manufacturing facility in Melbourne.

Emco Wheaton and its subsidiaries now have sales offices in the capital cities of all Australian states. Orders on hand in our Australian companies are significantly higher than at the same time in 1979 and completion of our acquisition program will ensure that all potential sales areas, particularly in the booming mining and agricultural industries, are fully developed.

Long-Term Strategy

The Petroleum Equipment Group is approaching the mid-point of a five year program designed to broaden its product base, lessen its dependence on any one market and improve its profitability. To date, objectives have been achieved and our basic strategy will continue until completion of our program. We believe that organizational flexibility will be a key to success in the coming decade. The ability to utilize rapidly expanding technology and to capitalize on new product opportunities will be a prime requisite. Our long-range plan recognizes these needs



Production line of computer numerical controlled turning lathes at Ritepro Inc.

and our engineering, manufacturing and marketing resources are being geared to meet this demand. In addition, we will continue to investigate numerous acquisition activities in an effort to meet our goals.

Despite the many economic, political and social problems in the world at this moment, we approach the challenge of the eighties with cautious optimism.

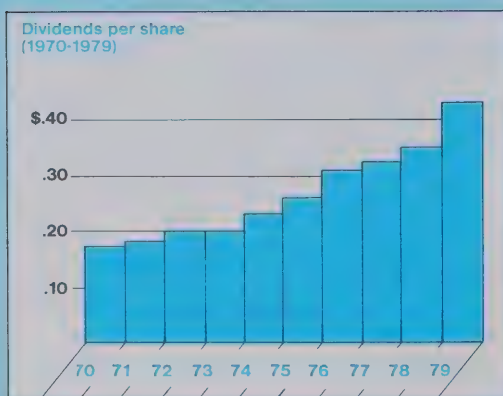
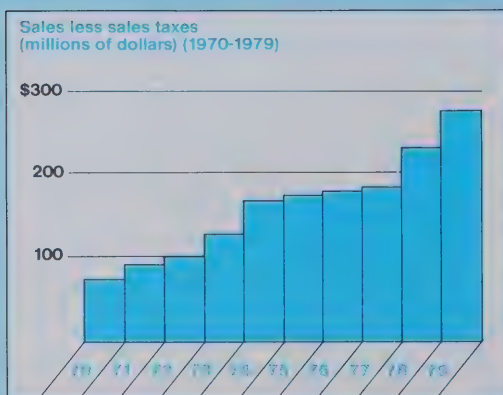
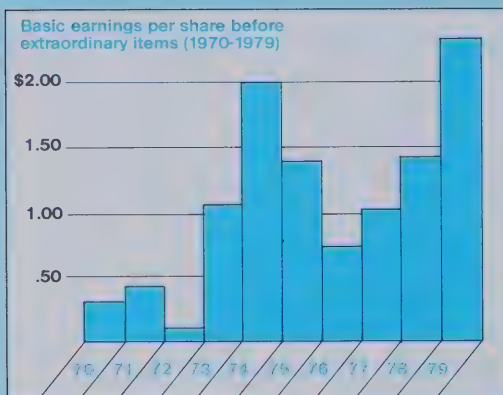
*R.H. Wedgbury
President, Emco Wheaton International Limited*



EMCO LIMITED AND SUBSIDIARIES

Ten Year Financial Summary

Amounts shown below are thousands of dollars with the exception of data under the heading common share results.



SALES, LESS SALES TAXES

Plumbing & Industrial Group
Petroleum Equipment Group

1979
\$211,180
66,120
\$277,300

CHANGES IN FINANCIAL POSITION

Funds provided

Operations
Extraordinary items, net
Increase in long-term debt
Issue of common shares:
For cash
On conversion of 7% debentures
Proceeds on disposal of property and plant
Total funds provided

\$12,900
300
1,900
200
200
200
15,400

Funds used

Property, plant and equipment
Decrease in long-term debt:
Principal
Foreign currency translation adjustment
Redemption of second preference shares
Dividends on second preference shares
Dividends on common shares
Acquisitions, net of working capital acquired
Other, net
Total funds used

3,300
900
100
1,900
1,800
700
9,000

Increase (decrease) in working capital

\$ 6,400

Working capital at December 31

\$ 6,400

COMMON SHARE RESULTS

Basic earnings:

Before extraordinary items
Including extraordinary items

\$ 2.30
2.40

Fully diluted earnings:

Before extraordinary items
Including extraordinary items

2.20
2.30

Book value at December 31

13.80

Dividends paid

.40

Return on shareholders' equity at January 1

(based on earnings before extraordinary items)

% 20.0

1978	1977	1976	1975	1974	1973	1972	1971	1970
180,283	157,707	150,386	148,694	148,725	111,203	84,949	80,152	69,474
<u>44,639</u>	<u>31,301</u>	<u>27,749</u>	<u>27,140</u>	<u>23,825</u>	<u>19,126</u>	<u>15,593</u>	<u>15,774</u>	<u>14,336</u>
<u>224,922</u>	<u>189,008</u>	<u>178,135</u>	<u>175,834</u>	<u>172,550</u>	<u>130,329</u>	<u>100,542</u>	<u>95,926</u>	<u>83,810</u>

9,634	6,982	5,083	8,621	10,054	5,235	1,673	2,774	2,267
165	147	(8)	205	256	—	—	—	—
—	—	15,056	633	—	280	—	6,000	5,000
—	—	4	53	—	—	—	41	91
—	—	101	7	4,890	—	34	—	—
492	545	272	55	152	1,049	427	—	24
<u>10,291</u>	<u>7,674</u>	<u>20,508</u>	<u>9,574</u>	<u>15,352</u>	<u>6,564</u>	<u>2,134</u>	<u>8,815</u>	<u>7,382</u>

4,013	4,057	5,439	4,096	3,054	2,984	2,594	1,791	939
1,210	1,107	900	643	6,329	82	153	1,539	3,577
(476)	(450)	16	(9)	2	(1)	4	4	28
—	—	—	—	—	—	—	—	442
—	—	—	—	—	—	—	—	7
1,634	1,453	1,452	1,265	998	756	756	723	689
—	—	—	—	—	—	—	—	—
(134)	254	448	(596)	(254)	140	231	201	231
<u>6,247</u>	<u>6,421</u>	<u>8,255</u>	<u>5,399</u>	<u>10,129</u>	<u>3,961</u>	<u>3,738</u>	<u>4,258</u>	<u>5,913</u>
<u>4,044</u>	<u>1,253</u>	<u>12,253</u>	<u>4,175</u>	<u>5,223</u>	<u>2,603</u>	<u>(1,604)</u>	<u>4,557</u>	<u>1,469</u>
<u>53,129</u>	<u>49,085</u>	<u>47,832</u>	<u>35,579</u>	<u>31,404</u>	<u>26,181</u>	<u>23,578</u>	<u>25,182</u>	<u>20,625</u>

1.48	1.07	.74	1.46	2.00	1.12	.14	.45	.33
1.59	1.16	.77	1.51	2.08	1.17	.17	.45	.33
1.42	1.04	.72	1.40	1.91	.91	.14	.43	.33
1.53	1.12	.75	1.44	1.97	.95	.17	.43	.33
11.80	10.58	9.74	9.29	8.06	6.15	5.20	5.27	5.02
.35	.32	.31	.27	.23	.20	.20	.18%	.18 1/3
14.0	11.0	8.0	18.1	31.7	21.5	2.7	8.9	6.7



EMCO LIMITED

Consolidated Balance Sheet, December 31, 1979 with comparative figures for 1978

ASSETS	1979	1978
Current Assets		
Cash	1,263,957	579,660
Marketable securities, at cost (quoted value \$924,187; 1978, \$673,235)	829,033	595,708
Accounts receivable, less allowance for doubtful accounts (\$2,290,004; 1978, \$2,384,592)	42,577,320	33,151,789
Inventories at the lower of cost or net realizable value (note 2)	87,783,513	67,899,422
Prepaid expenses	1,645,031	1,339,664
Total current assets	134,098,854	103,566,243
Long-term receivables	1,056,064	328,162
Property, plant and equipment, at cost less depreciation (note 3)	27,388,959	24,975,565
Unamortized debt discount and expense	260,825	307,746
Goodwill at cost less amortization (note 6)	477,629	—
	\$163,282,331	129,177,716
LIABILITIES AND SHAREHOLDERS' EQUITY	1979	1978
Current Liabilities		
Bank and other short-term indebtedness	\$ 31,724,659	23,642,722
Accounts payable and accrued expenses	30,802,671	20,754,010
Dividends payable	499,457	408,590
Current portion of long-term debt	784,834	614,462
Income and other taxes payable	10,758,194	5,016,567
Total current liabilities	74,569,815	50,436,351
Deferred income taxes	2,149,006	2,208,341
Long-term debt (note 4)	23,710,429	22,847,648
Minority interest in subsidiary companies	157,585	98,948
Shareholders' Equity		
Capital stock, common shares (note 5)	5,637,061	5,630,810
Retained earnings	57,058,435	47,955,618
Total shareholders' equity	62,695,496	53,586,428
	\$163,282,331	129,177,716

See accompanying notes to consolidated financial statements.

On behalf of the Board: J.W. Adams, Director
C.N. Chapman, Director

EMCO LIMITED

Consolidated Statement of Earnings, Year ended December 31, 1979
with comparative figures for 1978

	1979	1978
Sales, less sales taxes		
Plumbing and industrial group	\$211,184,093	180,283,456
Petroleum equipment group	66,120,514	44,638,984
	\$277,304,607	224,922,440
Operating income after minority shareholders' interest but before the undernoted items	\$ 27,319,002	16,299,734
Investment income	89,582	112,282
Foreign currency translation gain	477,105	1,440,484
	27,885,689	17,852,500
Deduct		
Depreciation	2,271,553	2,018,225
Interest on bank and other short-term indebtedness	4,159,643	2,128,595
Interest on long-term debt	2,660,004	2,201,890
Earnings before taxes on income	18,794,489	11,503,790
Taxes on income (note 7)		
Current	8,187,000	3,937,000
Deferred	(146,000)	863,000
	8,041,000	4,800,000
Earnings before extraordinary items	10,753,489	6,703,790
Extraordinary items (note 8)	347,000	506,000
Net earnings	\$ 11,100,489	7,209,790
Earnings per common share		
Basic		
Before extraordinary items	\$ 2.37	1.48
Extraordinary items	.08	.11
Including extraordinary items	\$ 2.45	1.59
Fully diluted		
Before extraordinary items	\$ 2.27	1.42
Extraordinary items	.08	.11
Including extraordinary items	\$ 2.35	1.53

See accompanying notes to financial statements.



EMCO LIMITED

Consolidated Statement of Retained Earnings

Year ended December 31, 1979 with comparative figures for 1978

	1979	1978
Amount at beginning of year	\$47,955,618	42,380,161
Add net earnings	11,100,489	7,209,790
	59,056,107	49,589,951
Deduct dividends	1,997,672	1,634,333
Amount at end of year	\$57,058,435	47,955,618

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Emco Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
February 25, 1980

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The financial statements of the company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and with all information available up to February 25, 1980. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in note 1 of the notes to the consolidated financial statements.

London, Canada
February 25, 1980

John W. Adams
President, Chief Executive Officer

W. Wesley De Shane
Secretary-Treasurer

EMCO LIMITED

Consolidated Statement of Changes in Financial Position
Year ended December 31, 1979 with comparative figures for 1978

	1979	1978
Funds provided		
Operations		
Net earnings before extraordinary items	\$10,753,489	6,703,790
Depreciation	2,271,553	2,018,225
Deferred income taxes	(146,000)	863,000
Amortization of debt discount and expense and goodwill	48,531	49,457
Funds provided from operations	12,927,573	9,634,472
Funds provided by extraordinary items, net	347,000	165,400
Proceeds on disposal of property and plant	209,232	491,935
Increase in long-term debt	1,917,600	—
Issue of common shares	6,251	—
Other	102,671	339,008
Total funds provided	15,510,327	10,630,815
Funds used		
Property, plant and equipment	3,363,410	4,013,336
Decrease in long-term debt:		
Reduction of principal	953,347	1,209,515
Foreign currency translation gain (loss)	101,472	(476,226)
Net decrease	1,054,819	733,289
Dividends	1,997,672	1,634,333
Acquisition of businesses net of working capital acquired (note 6)	1,872,104	—
Other	823,175	205,744
Total funds used	9,111,180	6,586,702
Increase in working capital	\$ 6,399,147	4,044,113
Working capital at end of year	\$59,529,039	53,129,892

See accompanying notes to consolidated financial statements.



EMCO LIMITED

Notes to Consolidated Financial Statements December 31, 1979

1. Accounting policies

The accounting principles followed by the company are those which are generally accepted in Canada.

The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements.

Principles of consolidation The accompanying financial statements consolidate the accounts of all subsidiary companies. All material intercompany balances and transactions have been eliminated.

Foreign currency transactions Amounts in foreign currencies are translated into Canadian dollars as follows:

Current assets except inventories, and current liabilities – at rates current at the year end.

Inventories, property, plant and equipment, and goodwill – at rates in effect at dates of acquisition.

Long-term debt – at rates current at the year end.

Operating income and expenses – at average rates during the year except for depreciation and amortization of goodwill which are on the same basis as the related assets.

Gains and losses resulting from such translation practices are reflected in the statement of earnings.

The investment in consolidated net assets at December 31 was geographically distributed approximately as follows:

	1979	1978
Canada and United States	\$52,014,000	43,572,000
Europe	6,474,000	5,640,000
Japan and Australia	2,408,000	2,644,000
Brazil	1,800,000	1,730,000

Depreciation Depreciation is generally provided on a straight-line basis over the estimated useful lives of the assets. Depreciation rates are as follows: buildings 2.5% and 5%; roadways 10%; machinery and equipment 10% and 20%.

Amortization of debt financing expense The discount and expense on the long-term debt is being amortized over the term of the debt in proportion to the principal amount outstanding during each year. The amount amortized is included in interest on long-term debt expense in the statement of earnings.

Amortization of goodwill Goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations, is being amortized over the estimated life of the goodwill.

Research and development expenses Costs associated with research and development of new products and improvements to existing products are expensed as incurred.

Earnings per share Earnings per share are calculated using the weighted daily average number of shares outstanding.

Fully diluted earnings per share are calculated on the assumption that any options and warrants outstanding at the end of the year were exercised at the beginning of the year; and that funds derived therefrom had been used to reduce bank indebtedness and related interest costs. The interest deducted less related income taxes was \$153,000 (1978, \$115,000).

2. Inventories

	1979	1978
Raw materials	\$ 7,000,637	3,959,360
Work in process	19,762,372	16,237,124
Finished goods	61,664,700	47,793,063
	<u>88,427,709</u>	<u>67,989,547</u>
Less: Progress billings	644,196	90,125
	<u>\$87,783,513</u>	<u>67,899,422</u>

3. Property, plant and equipment

	1979	1978
Buildings and roadways	\$21,620,436	20,630,730
Machinery and equipment	21,517,516	18,171,025
	<u>43,137,952</u>	<u>38,801,755</u>
Less accumulated depreciation	19,472,829	17,573,378
	<u>23,665,123</u>	<u>21,228,377</u>
Land	3,723,836	3,747,188
	<u>\$27,388,959</u>	<u>24,975,565</u>

4. Long-term debt

	1979	1978
<i>Emco Limited</i>		
5¾% sinking fund debentures due June 15, 1985	\$ 3,370,000	3,370,000
9¾% sinking fund debentures due July 15, 1990	4,033,000	4,200,000
Note due April 15, 1981 (U.S. \$5,000,000)	5,831,500	5,923,500

Note payable in instalments to December 16, 1986	8,890,000	9,460,000
<i>Subsidiary Companies</i>		
Note payable in instalments due October 31, 1984 (Australian \$1,500,000)	1,917,600	—
6% mortgage note payable in monthly instalments due August 1, 1986 (U.S. \$232,394)	271,041	308,646
9% mortgage payable in monthly instalments due October 1, 1989	182,122	199,964
	24,495,263	23,462,110
Less amounts due within one year included with current liabilities	784,834	614,462
	<u>\$23,710,429</u>	<u>22,847,648</u>

Interest on the notes for which no fixed rates of interest is shown will change from time to time in relation to the lenders' cost of borrowing. The interest rates at December 31, 1979 were 15.5%, 15.1% and 11.6% respectively.

Long-term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1984, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, aggregates \$784,834 in 1980; \$7,062,722 in 1981; \$1,608,564 in 1982; \$1,801,920 in 1983 and \$1,995,549 in 1984.

5. Capital stock

Authorized, issued and outstanding

	<u>Number of Shares</u>		
	<u>Issued and Outstanding</u>		
	<u>Authorized</u>	<u>1979</u>	<u>1978</u>
Preference shares with a par value of \$100 each	500,000	—	—
Common shares without par value	12,000,000	4,540,514	4,539,814

During 1979, 700 common shares were issued for a cash consideration of \$6,251 on the exercise of warrants.

Share options At December 31, 1979, 188,550 common shares had been reserved for issuance under a share option plan for certain key executives. There were no options outstanding at December 31, 1979.

Share purchase plan During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1979, there were 128,145 shares available for future subscriptions. There were no transactions during 1979.

Dividend restrictions The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1979 the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels.

Conversion privilege There were 252,750 common share purchase warrants outstanding at December 31, 1979 entitling the holder to purchase one new common share for each warrant held. The warrants expire on August 1, 1980 and the exercise price for each warrant is \$8.93.

The company has covenanted to reserve a sufficient number of common shares to be available for issue upon exercise of the common share purchase warrants.

6. Acquisitions

During 1979, the company and its subsidiaries acquired the business and net assets of certain companies engaged in the manufacture and distribution of fluid handling and storage equipment used in the oil and petrochemical industries. The acquisitions were accounted for by the purchase method as follows:

Assets acquired, at fair value	\$10,346,367
Liabilities assumed	6,325,998
Net assets acquired	4,020,369
Cash consideration	4,499,608
Goodwill	\$ 479,239



EMCO LIMITED

Notes to Consolidated Financial Statements December 31, 1979

Goodwill, which arose on the purchase of the J.B. Reimann Group in Australia, is being amortized over 20 years. Other companies acquired were RNG Equipment Ltd. and Ritepro Inc. of Montreal and Engineering Products Pty. Limited of Australia.

7. Taxes on income

Deferred taxes on income for 1979 were reduced by \$290,000 as a result of changes in the United Kingdom inventory tax relief legislation.

8. Extraordinary items

	<u>1979</u>	<u>1978</u>
Gain on sale of property and plant in 1978 net of income taxes of \$89,000	\$ —	302,000
Reduction in income taxes of subsidiary companies from the application of losses carried forward	<u>347,000</u>	<u>204,000</u>
	<u><u>\$347,000</u></u>	<u><u>506,000</u></u>

9. Directors and senior officers remuneration

The aggregate direct remuneration paid or payable by the company to directors and senior officers was \$821,000 for the year ended December 31, 1979 (1978, \$685,000).

10. Pension plans

The company has no significant liability for past services under its pension plans.

11. Commitments

At December 31, 1979 the company had outstanding commitments of approximately \$2,500,000 for the purchase of machinery and equipment.

DIRECTORS

John W. Adams, FCA
London, Ontario
President and Chief Executive Officer, Emco Limited

Erwin H. Billig
Taylor, Michigan
Group Vice-President, Masco Corporation

C. Norman Chapman
London, Ontario
Chairman of the Board, Emco Limited

Fred L. Donnell
Indianapolis, Indiana
Group Vice-President, Masco Corporation

W. Harold Evans
Toronto, Ontario
Retired Chairman, Honeywell Limited

Peter J. Ivey
London, Ontario
President, Cambarex Investments Limited

David L. Johnston
Montreal, Quebec
Principal and Vice-Chancellor, McGill University

Frederick W.P. Jones
London, Ontario
Business Consultant

Wayne B. Lyon
Taylor, Michigan
Executive Vice-President, Masco Corporation

Ralph S. MacLean
London, Ontario
Vice-President, Plumbing and Industrial Group, Emco Limited

Richard A. Manoogian
Taylor, Michigan
*Vice-Chairman of the Board, Emco Limited
President, Masco Corporation*

Edwin C. Phillips
Vancouver, British Columbia
President, Westcoast Transmission Company Limited

Robert W. Stevens, Q.C.
Toronto, Ontario
Partner, Blake Cassels and Graydon

David B. Weldon
Toronto, Ontario
Chairman of the Board, Midland Doherty Limited

OFFICERS

C. Norman Chapman
Chairman of the Board

Richard A. Manoogian
Vice-Chairman of the Board

John W. Adams, FCA
President and Chief Executive Officer

Ralph S. MacLean
Vice-President, Plumbing & Industrial Group

Stuart F. Smith
Vice-President, General Manufacturing Division

W. Wesley De Shane, CA
Secretary-Treasurer

TRANSFER AGENTS AND REGISTRARS

The Royal Trust Company Toronto, Montreal and Winnipeg (5¾% debentures); Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver (common shares and common share purchase warrants) The Canada Trust Company Toronto, Montreal and Winnipeg (9¾% debentures)

AUDITORS

Peat, Marwick, Mitchell & Co.
London, Canada





EMCO LIMITED, BOX 5300, LONDON, CANADA, N6A 4N7